

# State of California



## Fair Political Practices Commission

P.O. BOX 807 • SACRAMENTO, 95804 • • • 1100 K STREET BUILDING, SACRAMENTO, 95814

Technical Assistance  
(916) 322-5662

• • Administration • •  
322-5660

• • Executive/Legal • •  
322-5901

• • Enforcement • •  
322-6441

• • Statements of Economic Interest  
322-6444

December 12, 1983

Diane M. Lee  
City Attorney  
City of Palo Alto  
P.O. Box 10250  
Palo Alto, CA 94303

Re: Your Request for Written  
Advice, Our No. A-83-257

Dear Ms. Lee:

You have written on behalf of Palo Alto City Councilmember Michael Cobb, to seek the Commission's advice as to an interpretation of the conflict of interest provisions of the Political Reform Act (the "Act").<sup>1/</sup> Councilmember Cobb's spouse may become an employee of Stanford University Hospital (the "Hospital"). He wishes to know whether that would result in Leland Stanford Junior University ("Stanford University") becoming a source of income to him which could, in turn, form the basis for a possible conflict of interest disqualification in the future as to Stanford University.

You have provided us with certain background materials on this question, specifically, a letter from Ross E. Campbell "managing attorney for the [H]ospital" and a copy of the Hospital's By-Laws, as amended October 13, 1981. These documents are attached hereto as Exhibit 1 and incorporated by reference.

### CONCLUSION

We have reviewed the documents and conclude that if Mr. Cobb's spouse is employed by the Hospital and earns at least \$500 in the 12-month period preceding any decision in question,

---

<sup>1/</sup> Government Code Sections 81000-91014. All statutory references are to the Government Code unless otherwise specified.

then Stanford University will constitute a source of income of \$250<sup>2</sup>/ or more during the 12 months preceding the decision as specified in Section 87103(c) and thereby give rise to the potential for disqualification on the part of Mr. Cobb.

#### ANALYSIS

Our conclusion is based upon the totality of the facts presented showing the close interrelationship between the Hospital and Stanford University. The material facts disclosed by the attached documents are as follows:

1. The Hospital is a nonprofit corporation, legally separate from Stanford University.
2. The Hospital functions independently from Stanford University with regard to personnel matters, including hiring and salary decisions.
3. However, despite the above, the following contrary facts are contained in the Hospital By-Laws.
  - a. "The President of the Hospital shall be the same person who holds the Stanford University position of Vice President for Medical Affairs." (Art. VII, Sec. 1)
  - b. "The President of the Hospital has the authority to do whatever is necessary to carry out his or her responsibilities, including the authority to employ and dismiss all persons necessary for the operation of the Hospital." (Art. VII, Sec. 1)
  - c. "In the event that this organization shall be dissolved or wound up at any time, then all of the properties, monies and assets of the organization shall be transferred exclusively to and become the property of The Board of Trustees of The Leland Stanford Junior University." (Art. IX)
  - d. "The purpose of this organization [the Hospital] is . . . to further the educational mission of The Leland Stanford Junior University by maintaining a hospital in which quality medical care is demonstrated and taught to predoctoral and postdoctoral students, and furthered through

---

<sup>2</sup>/ Section 82030(a) provides that the community property interest in his spouse's income is attributable to Mr. Cobb.

scientific research into the causes, diagnosis and treatment of disease. For these purposes, the hospital shall draw upon the academic resources of the School of Medicine and other schools of the University; and the development and utilization of the hospital's facilities shall be maximized to provide an environment conducive to the achievement of these purposes." (Art. II)

e. "The general members of this organization [the Hospital] shall be the members of The Board of Trustees of the Leland Stanford Junior University. The term of a member shall continue as long as such individual is a member of The Board of Trustees of The Leland Stanford Junior University." (Art. III, Sec. 1)

f. "Each general member shall have one vote."  
(Art. III, Sec. 2)

g. "The annual meeting of the general members shall be held immediately following the regular meeting of The Board of Trustees of The Leland Stanford Junior University in October of each year." (Art. III, Sec. 6)

h. "The overall responsibility for the operation and management of all affairs of the hospital shall be in a Board of Hospital Directors as hereinafter specified."  
(Art. V, Op. & Mgm't.)

i. "The Board of Directors of this organization shall consist of at least fifteen (15) persons, at least twelve (12) of whom shall be elected by the general members. The elected members shall include at least (a) two general members.... In addition to the elected Board members, the President of Stanford University, the President of the Hospital, and the Executive Vice President of the Hospital shall also be members of the Board...." (Art. V, Sec. 1)

j. "Nominees for elected membership on the Board of Hospital Directors shall be selected by the Nominating Committee of the general members which shall consider recommendations from general members and members of the Board of Hospital Directors. At the annual or a special meeting of the general members the directors shall be elected by a majority of those general members casting votes in person." (Art. V, Sec. 2)

k. "The land on which the Hospital sits belongs to Stanford University." (Letter from Ross E. Campbell)

The foregoing excerpts establish that Stanford University and the Hospital are really one and the same. The same group of persons holds ultimate voting control over both entities. That group is The Board of Trustees of The Leland Stanford Junior University. The Hospital's President is a Stanford University Vice President, who has ultimate authority to hire and fire all Hospital staff. The purpose of the Hospital is to serve the needs of Stanford University's educational mission.

If the two entities were business entities, rather than nonprofits, we would clearly hold that the Hospital is a wholly-owned subsidiary of Stanford University. We see no reason within the purposes of the Act for achieving a different result here. As was stated in the Commission's Kahn Opinion,<sup>3/</sup> and reiterated in the Commission's most recent opinion,<sup>4/</sup> a parent corporation will be deemed to have control of its subsidiary and the Commission will "pierce through" the corporate veil whenever the purposes of the Act are best served by doing so.<sup>5/</sup> Having concluded that the Hospital and

---

<sup>3/</sup> Opinion No. 75-185, Nov. 3, 1976, 2 FPPC Opinions 151, copy enclosed.

<sup>4/</sup> Opinion requested by Steven F. Nord, No. 83-004, October 5, 1983, 8 FPPC Opinions 6, copy enclosed.

<sup>5/</sup> See Nord Opinion at 8 FPPC Opinions 10, fn. 11.

Stanford University are one and the same, we must examine the remaining issues. If Councilmember Cobb's spouse becomes employed by the Hospital, both the Hospital and Stanford University would jointly be sources of income to him. Consequently, under Sections 87100 and 87103(c),<sup>6/</sup> Mr. Cobb would be required to disqualify himself as to any decision which would reasonably and foreseeably have a material financial effect on either the Hospital or Stanford University where the effect on either of these two entities would be distinguishable from the decision's effect on the public generally.

---

<sup>6/</sup> Section 87103(d) would not apply here since Mr. Cobb's spouse is the employee, not Mr. Cobb himself.

Diane M. Lee  
December 12, 1983  
Page 5

I trust that this letter has satisfactorily responded to the question which you posed.

Sincerely,

Robert E. Leidigh  
Counsel  
Legal Division

REL:plh  
Enclosures



OFFICE OF  
**CITY ATTORNEY**  
CITY OF PALO ALTO

P.O. BOX 10250  
PALO ALTO, CALIFORNIA 94303

(415) 329 2171  
November 10, 1983

250 HAMILTON AVENUE  
PALO ALTO, CALIFORNIA 94301

State of California  
Fair Political Practices Commission  
P.O. Box 807  
Sacramento, CA 95804

RE: Request for advice pursuant to  
Government Code Section 83114(b)

I hereby request advice pursuant to Government Code  
Section 83114(b) on behalf of Councilmember Michael Cobb.

This opinion request is related to one which you gave  
to Councilmembers Billy Ray White and Matt Lehmann of the City  
of Menlo Park, Advice No. A-82-214. In that opinion request  
you were advised that the spouse of Councilmember White was an  
employee of Stanford University, a non-profit corporation  
governed by a Board of Directors appointed by the Board of  
Trustees of Leland Stanford Junior University. For these pur-  
poses, you were asked to consider the hospital one and the same  
with the university.

I am requesting on behalf of Councilmember Cobb, that  
you not make that assumption. The question on which we would  
like advice is whether Stanford University would be considered  
a source of income to Councilmember Cobb, apart from Stanford  
University Hospital, if the spouse of Councilmember Cobb were  
to become an employee of the hospital. I would presume that  
the answer to this question would be determinative of whether  
87100(d) would apply to possibly disqualify Councilmember Cobb  
from participating in governmental decisions having a material  
financial affect on the university as distinguished from the  
hospital.

In order to provide you with additional information  
on this matter I am enclosing a copy of a letter from Ross E.  
Campbell, managing attorney for the hospital together with a  
copy of the hospital by-laws which Mr. Campbell provided to  
me.

Very truly yours,

*Diane M. Lee*  
DIANE M. LEE  
City Attorney

DML:sp  
Enclosures  
cc: Michael Cobb  
Ross Campbell